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4. Title of material, if any Reclassification of Minivans and SUVs	5. Name of foreign principal on whose behalf this material was transmitted. Mazda Motor Corporation Mazda (North America), Inc.	
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Reclassification of Minivans and SUVs:

A Dangerous Gamble with America's Future and A Blind Eye to Its Past

Senator Riegle has proposed an amendment that would change the tariff classification of minivans and sport-utility vehicles. ("Sport-utility vehicles" [SUVs] refers to vehicles like Jeep Cherokees, Nissan Pathfinders, Ford Explorers, and Toyota 4-Runners). This measure would increase ten-fold the tariffs on imported minivans and SUVs, from 2.5 to 25 percent. This massive tariff hike would violate U.S. international obligations and seriously impact billions of dollars of U.S. trade, raising a very real likelihood of an equally massive retaliation against U.S. exports. It would be a blow to the U.S. economy and U.S. workers at a time when they can least afford it. And it would ignore the lessons history has taught about blatantly protectionist measures.

1. Keeping Track of the Core Issue: What's a "Passenger" Vehicle?

At the center of this controversy is a very simple issue: Are minivans and SUVs "vehicles principally designed for the transport of persons" or "vehicles for the transport of goods." If the former, they receive a 2.5 percent tariff; if the latter, their duty is 25 percent.

Common sense says that minivans and SUVs are designed for the transport of persons. Minivans and SUVs are advertised and sold as the family station wagons of the '90s. They can carry cargo, but they are "principally" vehicles for passenger use.

2. World Consensus Treats Minivans and SUVs as "Passenger" Vehicles

Major U.S. trading partners agree that minivans and SUVs should be classified as "passenger" vehicles. The EC -- a bright and growing market for U.S. minivans -- classifies them this way, as does Japan.

Moreover, the international body charged with harmonizing tariff treatment for the benefit of global trade, the Customs Cooperation Council, has ruled definitively on two occasions that the proper classification of SUVs is "passenger" vehicles. Congress and U.S. Customs in the past have emphasized the importance of giving weight to the Council's classification opinions. Defying

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the Council's decisions sets a bad precedent and undermines the harmonization effort that is more in the interest of the U.S. -- the world's largest exporter -- than any other country.

3. Reclassifying Minivans and SUVs Virtually Would Ask Trading Partners to Retaliate

The tariff reclassification would impose \$2,000 to \$5,000 in additional taxes on each minivan and SUV imported from Germany, England, or Japan. It would be optimistic at best to believe that these countries would not respond to the imposition of such a huge and blatant trade barrier. Billions of dollars in trade are at stake. U.S. minivan and SUV imports range near \$4 billion per year. Retaliation against an equivalent value in U.S. exports would have a severe effect on the brightest sector of the U.S. economy: the export sector.

4. Retaliation Would Be Legally Justified Under the GATT

The tariff reclassification would violate at least two U.S. obligations under the GATT, either of which could give rise to a right of retaliation by the affected countries.

First, the reclassification would violate the U.S. obligation under Article II of the GATT not to raise tariffs that the U.S. has bound in a GATT negotiation. In 1979, the U.S. bound its tariffs on "passenger" vehicles at 2.5 percent. By reclassifying minivans and SUVs so as to raise their tariffs to 25 percent, the U.S. would obrogate its tariff commitment.

Second, the reclassification would violate Article XXIII of the GATT by "nullifying or impairing" benefits of the GATT agreement for Germany, England, and Japan. Exporting countries have a reasonable expectation that passenger vehicles will continue to be subject to a 2.5 percent tariff. Abrogating that expectation would nullify or impair the benefits of the U.S. tariff commitment for the exporting countries.

These violations could give the exporting countries the right to "seek compensation" or "suspend concessions" -- a GATT phrase for retaliation against U.S. exports. It is important to note that GATT-authorized retaliation would not have to be limited to the automotive sector, but could be applied to billions of dollars in exports from other dynamic U.S. industries as well.

5. A Blow to U.S. Workers and Consumers

In addition to the threat to U.S. exports from retaliation, the reclassification would deal a hard blow to the 300,000 Americans employed in import auto dealerships in the U.S.

U.S. consumers almost certainly would face higher prices for SUVs or minivans, including domestic vehicles. A recent study by Citizens for a Sound Economy estimated that this measure would lead to price rises on domestic minivans and SUVs averaging \$1,331, while import prices would go up an average of \$3,667.

6. Minivans and SUVs Are the Healthiest Sector of the U.S. Auto Industry

The Riegle amendment threatens to ignite a severe trade battle to protect a sector of the auto industry that simply does not need protection. The U.S. "Big Three" automakers control roughly 90 percent of the U.S. minivan market and 84 percent of the U.S. SUV market. Press reports indicate that the leading minivan producer, Chrysler, makes about \$4,000 profit on every minivan it sells, and that the minivan and SUV sector as a whole is very profitable for the U.S. industry.

7. The 25 Percent Tariff Is An Historical Anomaly Not Intended To Strike At This Vast Volume of Trade

It should be borne in mind that the very existence of this 25 percent U.S. tariff on light trucks -- an extraordinarily high tariff for an industrial sector in a developed country -- is the result of an historical fluke. The U.S. imposed this tariff in 1963 in retaliation for an increase in German tariffs on U.S. chickens. The 25 percent tariff was aimed at exports to the U.S. of Volkswagen trucks valued at less than \$26 million. The Riegle amendment now plans to use this tariff three decades later to hit \$4 billion in imports.

Conclusion

Imposing a 1000 percent increase in the tariffs charged on a major industrial import is a very serious matter that could have effects beyond minivans and SUVs, and beyond the automotive sector. Especially in a recession, history has taught that initiating a cycle of retaliation is unwise and imprudent. Such a risk is particularly unjustified in a situation such as this where the reclassification would be in clear violation of U.S. international obligations, and would be aimed at a dynamic sector of the U.S. auto industry that does not need protection.